RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Mar. 24, 1999 **LETTER 1274**

Mar. 12 DJIA 9876.35; PTI 5324; A-D Ratio +2.99
Mar. 19 DJIA 9903.55; PTI 5318; A-D Ratio +2.73
Dow Yield: 1.60%; Dow Price/Earnings: 25.3
Dow 144-day MA: 9104; Dow 34-day MA: 9592
Dow Times Book Value: 6.21; PTI 89-day MA: 5332
Percentage of Undervalued Blue-chips: 7%
Gold 34-day MA: 289

THE PICTURE: Dow 10000, this is the beloved target that every stockholder has been waiting for, hoping for, praying for. What day will it arrive? Will it be tomorrow, will it be next week, two weeks from now? Wait, does it really have to happen at all? Well, gee, we hope so -- isn't market momentum still with us, isn't the force still with us?

If I'm correct, if this is a bear market, then the odds for a Dow closing above 10000 are growing slimmer. But you have to hand it to the bear -- he's done a masterful job of keeping everyone hoping, everyone buying, all the talking heads talking optimistically, everyone acting as if higher prices are as certain as night following day.

Unfortunately, I see something different. What I see is upside non-confirmations, dozens of them, as **time after time the "big" averages push higher** -- each rally **unconfirmed** by the breadth, unconfirmed by the Transports, by the high-lows, by my PTI.

What about the breadth? The steadily declining breadth has become so insistent, so obvious, that finally even the bulls are noticing it. **But nobody is talking about what it means.** So -- what does it mean when day after day, week after week, the majority of stocks are declining (aside from the obvious technical aspects, that is)?

I think the steadily declining breadth is telling us that an awful lot of corporations are having a **hard time producing decent profits** -- and that the profit-growth projections for all these thousands of corporations are just not going to materialize.

Secondly, I think that the **broad** market could be discounting **global deflation.** I can't ignore the dramatic across-the-board collapse in commodities -- and for that matter, I can't ignore gold below 290. If world deflation does arrive, the squeeze on profits will be severe. And oh yes, you know my view on the Internet -- I believe the Internet is a marvel, but I also believe that the Internet will prove to be extremely **hostile to profits.**

Finally (and Warren Buffett complained about this in his annual report), I think many of the earnings reports coming through are a product of **"creative accounting."** The pressure to "get our stock up" and "to beat expectations" is so intense that many corporations are resorting to questionable accounting tricks. After all, if corporate sales are only climbing at a 2% to 3% rates, how can earnings be climbing at a 15% to 20% rate?

Buffett attacks the 'tricks' of US accounting

By Richard Waters in New York

Warren Buffett has delivered a broadside over the state of US accounting, describing the attitude of many US executives to [illegible] as a lost ... ny's holding in McDonald's was "a very big mistake", and admitted that his decisions on buying and selling stocks last year only served to cut investment gains.

"Overall, you would have

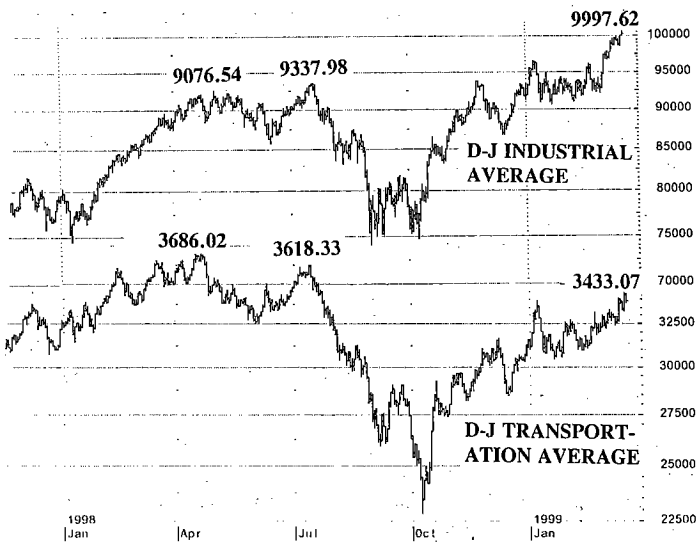
Background: Check out these statistics: Right now 92% of all Nasdaq stocks and 86% of all NYSE stocks are **below** their highs of recent years by 10% or more. Furthermore, **75%** of the stocks in the S&P 500 are lagging the S&P itself by 15% or more. This is the highest percentage since that count was first instituted in 1971. In comparison, in 1972 (prior to the crushing 1973-'74 bear market), only **60%** of the stocks in the S&P 500 lagged that average by 15% or more.

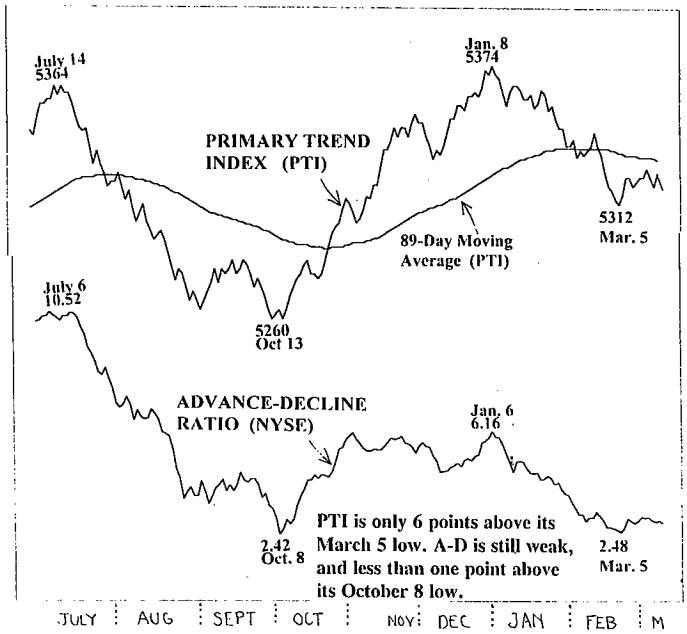
How about this one? For the 12 months that ended on February 28, only 10 S&P stocks accounted for 49% of the advance in the S&P. (All the above statistics courtesy of Salomon Smith Barney.) **Question:** What's behind the rise in the S&P and the Dow, and what's behind the bear market in the **great majority** of stocks on all exchanges? Keep reading.

Topping: This is what I see. One by one the various averages and indices are in the process of topping out. They've topped out in a rather subtle way, with the least obvious items topping early and the most obvious items topping later. The bear has done an excellent job. The proof -- even now, with a mere 31% of all NYSE stocks holding above their 200-day moving averages, the **public remains solidly bullish -- buying, buying, and continuing to buy (much of the buying is automatic via fixed "investment" programs).**

But **what they are buying has changed the equation** and given us some of the strangest and most unusual market action in stock market history. Here's what's happening. The public which has been a huge buyer of mutual funds has become **frustrated by the lagging action of most of their mutual funds -- lagging action compared with the index funds.** (Facts: in 1998 the S&P outperformed 86% of all general equity funds, in 1997 the S&P outperformed by 95%, and in 1996 the S&P outperformed by 75%.)

Indexing: Seeing the picture, the **public has moved heavily into index funds.** An article in the March 12 *WSJ* noted that Charles Schwab & Co. now recommends putting 50% of money slated for funds into index funds. At any rate, we know that





billions of dollars (a good deal of it automatically invested) are now pouring into index funds on a monthly, on a weekly and even on a daily basis.

What's the next step? The index funds have to invest this flood of money, so they rush to buy either the S&P futures (almost all index funds are based on the S&P 500) or they buy the underlying stocks that make up the S&P. **The S&P is dominated by a limited number of big-cap stocks.** Furthermore, **all** the 30 Dow Industrial stocks are included in the S&P 500.

So with massive index fund buying, the S&P pushes higher, taking the Dow with it, but the rest of the stocks, the great majority of stocks, are either left behind -- or continue lower. So we are really dealing with two markets, the big-cap leaders in the S&P (including many tech stocks and Internet stocks) and "the rest," meaning the majority of stocks, whose direction we monitor through the action of the advance-decline ratio.

What about my **Primary Trend Index (PTI)** which turned bearish on February 12? Lest you wonder, I don't manipulate the PTI. I compute the PTI at the end of each day, and my computations simply reflect actual market statistics. Furthermore, the components of the PTI all reflect actual market action. Thus, there is **no judgment involved on my part,** no possibility of my manipulation or fudging.

So the question -- who's right, the S&P composite and the Dow or the great majority of stocks which has been declining in harmony with the PTI? My answer -- the **PTI tracks the true underlying trend of the market.** It may take some time, but the PTI will show us what's really happening. No group of stocks, financials, Internets, techs, can alone set the great underlying primary trend of the market.

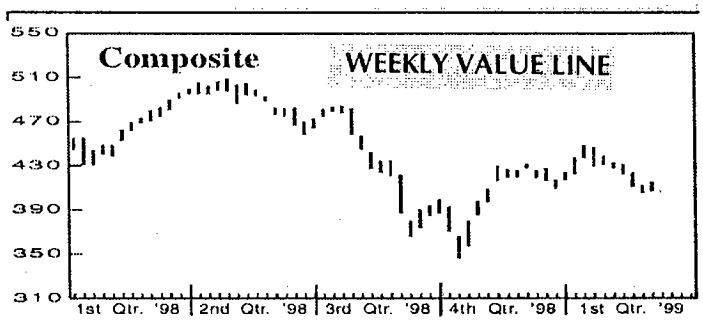
Second question: Aren't the Dow and the S&P Composite really "the market"? Answer: No, the market is a composite of ALL the stocks on the NYSE, the Nasdaq and the Amex. The PTI does track the true primary trend of the market, which is why I named it the Primary Trend Index.

PARADE: In recent Letters I've presented "the big picture" as I see it. And this is what I see. I call it **the bear market's "topping parade," and for some strange reason you won't see this list published anywhere else.**

On April 3 the advance-decline ratio hit its high at 13.00. On April 16 the D-J Transportation Average recorded its high at 3686.02. On April 21 the Value Line Composite hit its high at 508.39. On April 22 the Russell 2000 recorded its high at 491. On October 9 the D-J Utility Average hit its high at 320.51. On January 8 my Primary Trend Index reached its high at 5374. On February 1 the Nasdaq Composite recorded its high at 2510.09. On March 18 the Dow hit a record closing high of 9987.62; on the same day the S&P 500 put in a record closing high of 1316.55 (of course, in the case of the Dow and the S&P we don't know yet whether those were the highs).

At this point I want to say something about the Value Line Composite (1632 stocks). This is an average that does not have a huge following, but I believe it is **one of the best averages.** The following is from my friend Burt Dohmen's *Wellington Letter* [(808)545-2243]: *"I like to use the Value Line to see what the real market is doing. The Value Line is not capitalization weighted. If your stock is down $10 a share, you don't care how many shares the company has outstanding. It went down $10, which is a certain percentage, and you measure your loss according to how many other people may be holding that stock. Capitalization-weighted indices like the DJIA, are used to keep the public bullish at important tops, just by pushing up some stocks that have a very high number of shares outstanding. Those indices may go up while the rest of the market is already well on its way down . . . Yes the market is a game, and it's not meant to be fair."*

I include here a weekly chart of the Value Line Composite. This is probably as accurate a view of what the total market is doing as you'll find anywhere.



Another interesting fact is that the **divisor** for the Dow is now down at an historic low of **2.30.** That means that every 1 point in any DJIA stock will move that average 4.35 points. In other words, if IBM was to rise by say 6 points, you would add 26 points to the Dow. This, of course, adds tremendously to Dow **volatility.** Of course, it adds volatility to the downside as well (which in due time the bear will love).

INVESTMENT POSITION: The bear stays in the box. People have been asking me about bond funds. Personally, I'm reluctant to recommend bond funds as opposed to buying the actual bonds. Here's why. When you buy a bond fund you're depending on the fund manager to do a good job and not lose your money. There's **no maturity date on a bond fund.** It's an ongoing operation.

But when you buy a bond you have a definite maturity date. If I buy an Aaa-rated bond with a maturity date of say July 2002, I know that come July 2002, I'll get the maturity value (usually $1,000) back. In other words, when I buy a bond I don't have to worry about fund costs or portfolio turnover or a manager screwing up, all of which I do worry about if I buy a bond fund.

And that's why, if subscribers want to buy bonds, I recommend buying the actual bonds rather than buying a bond fund.

The stock market: Here, in our great "dividend-less bubble" market, you **must now depend on growth and lower interest rates.** The third leg of the stool, dividends, has disappeared. So the question -- are you willing to buy stocks here on the thesis that profits will grow and interest rates will either hold or decline? Personally, I'm not. Actually, on a year-to-year basis earnings are declining. And the trend of interest rates is always open to question.

Floyd Norris, the "grand old man" of *NY Times* financial writing, in a March 15 piece, notes that in December 1974 pessimism was rampant and the S&P was selling at a mere seven times earnings. "On average those stocks were selling at 5.8% of their purchase price." But today people are extremely bullish and they're happy to pay more than 30 times earnings for the S&P. Norris notes that "if investors were willing to pay about the same price for profits and dividends as they were in 1974 the Dow today would be around 2,500, not on the verge of topping 10,000 . . . That people are willing to pay so much more today is a tribute to optimism and to the fact that stocks are now viewed as a long-term sure thing."

The story of wealth or why aren't more families rich? Because of what I call the "three generation progression." Are you ready? Here it is: The first generation is industrious and creative and **builds the capital.** The second generation wants to take it easier, and they **live off the interest** on the capital. The third generation -- **spends the capital.** End of story.

NOTES & QUOTES: Well, so far we've got a couple of thousand subscribers on the Internet punching out www.dowtheoryletters.com and picking up my daily market comments. Remember, you don't get on our web site through a portal such as Yahoo, you type us in on the address line. I've received dozens of calls from subscribers, all of them saying that they really like these daily comments along with the PTI figures for the close of the day. You might also be interested to know that many funds, banks and institutions are following the PTI and our daily comments, so you're in good company. Of course, if you're outside the US and grumbling about slow mail delivery, the net gives you a daily rundown of my views. I'm really hoping that ALL my subscribers will eventually get on our web site.

A couple of comments about the website: To register to use the members' area, go to the home page, click on **websignup** and fill out the form. Be sure to **write down the username and password** that you request (these are case sensitive, which means that you must use whatever upper or lower case letters that you request -- for example, bob, Bob and BOB are all seen as different usernames to the computer). Many people are forgetting them or confusing them with other usernames and passwords that they use for other sites. Remember, **the username is what you requested, not necessarily your name.** And please try to keep it simple -- for instance, use one word for both the username and password, that way you only have to remember one thing. Once we have processed your request (which we have to do one by one), we will notify you that you are ready to go into the members' area. You get to the members' area by clicking on **services** at the home page, then clicking on **members' area**, entering your username and password and then clicking on either PTI values or Richard's Recent Remarks (this brings up a list of creation dates -- click on the date you want to read). Additionally, we've gotten a lot of calls from subscribers about the "under construction" disclaimer on our home page -- this just means we are still refining the site. And finally, we've stated that it will take approximately two weeks to process the information -- the actual turnaround has been running much closer to 3 days -- we're just saying it may take longer in case we run into trouble -- most people have been extremely understanding and we appreciate your patience. Please make sure that you read all of the above carefully and follow the instructions. Then, if you're still having trouble, call Lynn Hunter, our resident computer genius here, at (619)454-0481.

I realize that a lot of people (and, of course, many of my subscribers) are just not computer-literate. Honestly, that's a huge handicap in the world of today. I know that the whole idea of computers is foreign and even frightening to much of the older generation (say people over 50), but believe me, computers and the Internet is where it's happening. You're missing a lot if you're throwing up your hands and saying, "I can't do it, they're too darn difficult" or, "I'm just too old to learn a whole new language." Wrong, you can learn computers, it just takes a bit of time and work and concentration. It's ironic, but here's the story -- today's kids are computer literate, but they don't have the money. The oldsters have the money but they're not computer literate. My advice -- don't let the world pass you by -- get a computer and if nothing else, learn how to use the Internet. It's a modern necessity.

* *

Independent Booksellers Plan to Open On-Line Store

By DOREEN CARVAJAL

Facing intensifying competition, the nation's trade association for independent booksellers is creating its own national on-line store, Book Sense, to stave off fierce competition from Amazon.com and Barnesandnoble.com

The other day I hit Buy.com, the web site that offers to sell you a huge list of merchandise all below cost (they figure they'll make their money later on advertising). And yes, I was impressed. I was impressed with their prices, not with their concept. But I started thinking -- isn't retailing a zero sum game? In other words, if people start making 30% of their purchases over the net, isn't that 30% coming out of the hides of the non-net retail stores -- and at extremely competitive prices? Furthermore, in time won't EVERY retail store (even the smallest neighborhood jewelry or magazine store) be on the net? If they're not, they're stupid; after all, when you're selling on the net you're selling the world, not just the people within 10 blocks of your store. Oops, the latest is that all those independent booksellers are banding together to open their own on-line store. Who's next -- hardware, mattresses, lamps, candles, you name it? Everybody will be on the net, fighting for business, fighting each other -- offering bigger and better bargains.

All of which brings these thoughts to mind -- first, can any outfit monopolize the net for long? After all, it's so easy and so cheap to get on the net. And second, will the net cause the GDP to rise above where it would be without the net? Am I going to buy more just because there are a million net sites offering 10 million different items, many at bargain prices? The answer, speaking for myself, is no. Already, for me, the thrill of buying on the net is fading.

Aside from the dubious profits that may come from selling merchandise over the net, many "net-sters" are figuring that their profits will come either from advertising or "hits" (each time some one hits a net portal or net search site the advertiser will be charged a few cents or a nickel or whatever). This may work, but I'm not clear about how well it will work or for how long before advertisers get around it. My final conclusion: the net is absolutely fantastic for providing information (for instance, my own free-to-subscribers Dow Theory Letters site) -- but the net could be -- it just could be one huge SOB for producing profits. In fact, I believe that by its very nature the net is hostile to profits.

* *

Which web sites are drawing the greatest number of hits per month? Here they are: AOL -- 30.9 million; Microsoft -- 27.5

mils; Yahoo -- 27.4 mils; Lycos -- 26.4 mils; GeoCities -- 18.9 mils; Netscape -- 17.5 mils; Excite -- 16.5 mils; Infoseek -- 12.5 mils; ZDNet -- 5.9 mils; CNN -- 4.6 mils; MSNBC -- 4.5 mils; Pathfinder -- 4.5 mils; ESPN -- 3.9 mils.

* *

Talk about competition, how about this one: Microworkz Computer Corp. of Seattle will be selling a full-featured PC for $299 -- that's two hundred and ninety-nine bucks. The monitor is extra -- cost $100. And with it comes one year of free unlimited Internet service (the latter valued at $250). Are Dell and Compaq listening?

* *

All Asia and much of the world is wondering whether China will devalue its currency. China's has a goal of reaching 7% growth this year. But social discontent and rising crime have been increasing. Furthermore, exports have fallen over the past several months and the Chinese trade surplus has begun to decline significantly. China, with the yuan at its present value, is having trouble competing with lower-priced Asian currencies. If China devalues, all hell will break loose, and not just in Asia.

Chinese Trade Minister
Paints Gloomy Picture

By JOHN LEICESTER
The Associated Press

BEIJING

Emerging-Markets Investors Worry About Effects On Stocks Should China Devalue Its Currency

are again free to ponder the risks tha economic prol

Chinese two-month exports fall sharply

China yesterday reported a sharp fall in exports in the first two months of this year and persistent deflation in Febru-

* *

The Fed continues to liquefy the US banks and along with the IMF and the World Bank the Fed really wants to re-liquefy the world. The reason is clear -- Asia is still in recession, South America (Brazil) is in trouble, but now Europe too is teetering on the edge. Germany, the great "locomotive" of Europe, is near recession as the article below indicates (article courtesy of *Investor's Business Daily*). Thus it's obvious that the US economy is the "Atlas" that is holding up the world. But what if the US economy starts sliding? If that happens, we could have a global recession/depression, and the Fed doesn't even want to think about that -- and neither do I (but my job is to think about everything, the good and the bad).

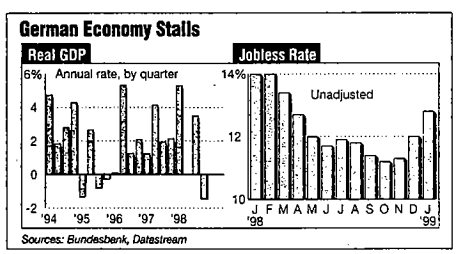
As Global Crisis Slows Germany, Euroland Shifts Into Lower Gear

Germany may not fall into recession, but its sluggishness is a drag on the whole continent

By Ed Carson
Investor's Business Daily

Many analysts are concerned that the U.S. can't forever remain an oasis of prosperity. For those waiting for Europe's economy to relieve America's burden, well, they're still waiting.

Last fall, most economists expected



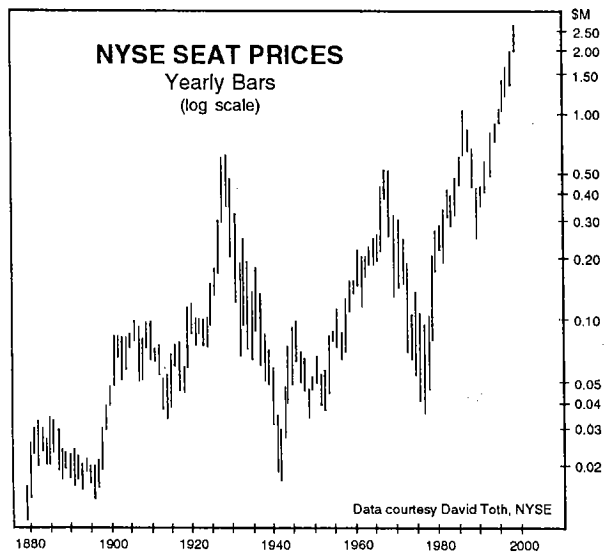
German Retreat: Export woes have hit Europe's biggest economy, and pushed unemployment higher

* *

US consumers are doing their part, and more, to keep the US and world economies afloat. Since 1991, private spending has exceeded the rise in private income by 10%. And total borrowing in the final quarter of 1998 exceeded $1 trillion for the first time in history. That's the good news. The bad news is that it can't continue.

* *

I've often talked about the price of a NYSE seat (memberships in the NYSE), but you rarely see a chart showing the whole history. Here's a chart courtesy of *The Elliot Wave Theorist* [(800)336-1618] taking the seat price back to the early 1900s. Seat prices tend to surge when volume surges and when speculation is intense. But the fascinating fact is that the surges in seat prices have always preceded speculative collapses and bear markets. Here we see peaks or spikes in the price of a seat in 1906 prior to the Panic of 1907, again in 1929 prior to the crash that followed, in 1968 prior to the collapse following wild speculation, and in 1987 prior to the 1987 market crash. Now we have another upward spike, taking the price of a seat to its highest price in history. All of which suggests that this might be a good time to be careful. Of course, this brings up another question -- why are seats at historic highs when the future is on-line investing?



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Bloomberg magazine has carefully checked all 50 states for tax friendliness or tax nastiness. The best states for tax friendliness are Alabama, Alaska, Arizona, Louisiana, Tennessee, Washington and Wyoming. The single BEST state is Nevada. The worst states for taxes are California, Kansas, Mass., N. Dakota, and Oregon. The worst of the worst are New York, Minnesota, Montana, and Vermont. The bottom of the list, the very WORST is little Rhode Island. The list runs from A+ down to D-. I was surprised to see California make a C- (I thought it would be worse). New York got a D rather than a worst D-.

* *

An article that appeared a few weeks ago in *Barron's* stated that even if the market dropped 30%, the drop would only knock 1% off the GDP and therefore it was doubtful whether the public would even sell stocks. What the author of this piece doesn't understand is **mass psychology.** We can never be sure how the public will react to any given move in the stock market. My own guess is that if the stock market dropped 30%, the public (now loaded with debt) would cut back drastically on their buying. According to Fed figures, households now own $10.8 trillion worth of stocks, up from $7.2 trillion two years ago. The rise in the stock market, it is estimated, has added about $35 to $55 billion in consumer spending. But what about in recent months when the majority of stocks were declining? No problem -- yet. It will take a real decline in the BIG stocks to scare the public into cutting back on their wild spending. It will take, in my opinion, the Dow heading down in a decisive way.

Along these lines, well-known contrarian David Dreman will publish a new quarterly, *The Journal of Psychology and Financial Markets*. As I understand it, the new magazine will introduce psychology and sentiment to the time-honored

economic equations. As to what the public would do if the market drops 30%, maybe the new quarterly can tell us.

* *

Fifty or a 100 years from now I'm certain that writer-director Stanley Kubrick will still be recognized as one of the truly greats of film-dom. I first got interested in Kubrick when I saw two of his early films, "The Killing" and "Paths of Glory." Kubrick later directed "Spartacus," "Lolita," "2001," "Dr. Strangelove," "A Clockwork Orange," and "The Shining." Kubrick was a long-time subscriber and a goldphile. He left the US for Britain to escape Hollywood's control over his work. Most of his films had to do with his fear and hatred of violence. Kubrick would send me occasional notes scribbled on a sheet of yellow paper or on the back of an envelope. One time his secretary called to say that Kubrick had misplaced a Letter. We asked which Letter Kubrick was missing, and his frightened secretary answered, "I don't know, he won't let me in his office." A few years ago Kubrick sent me the book, "Bomber Command" by Max Hastings, the story of Bomber Harris' attempt to win the war by British saturation bombing (556,000 British and Commonwealth aircrew members died in the course of RAF bombing). Kubrick said he really liked the book and urged me to read it. I suspected that one day Kubrick was going to do a film built somehow around this book, but we'll never know. The great film-maker died in his sleep a few weeks ago at the tender age of 70.

* *

Americans are not bigger drug users than citizens of other nations, but the US, virtually alone among Western democracies, has chosen the path of incarceration for non-violent drug offenders. General Barry McCaffrey, the nation's drug czar, called the growing mass of inmates "America's internal gulag." In the federal system, nearly 60% of all people behind bars are doing time for drug violations; in state and local prisons the figure is 22% -- that's triple the rate of 15 years ago. The total number of people in jails or prisons is now at 1.8 million and heading for 2 million. At the current rate, a new prison holding at least 1,000 people must be built every week. A huge 41% of the prisoners are black. Here in California there are more black men in prison than there are in college. The states are now spending $30 billion a year to keep people in jail. **Russell Comment:** The big money is being spent on the drug war, rather than on treatment. The government, for political reasons, insists on treating non-violent drug users as criminals instead of sick people. That approach hasn't worked. Street drugs are now cheaper than ever and there are more non-violent drug users in prison than ever.

* *

You think drug incarceration is a huge problem? The graying of the US and world population is a much bigger problem. Next year, for the first time in history, there will be more people over 60 than kids under 14 in industrial countries. Even more surprising, the population of the Third World, although still young, is aging faster than the rest of the world. The problem is that the cost of supporting this aging population is going to put enormous strains on the world economy. In the world's richest and most productive countries, the number of working people will be dropping at a rate well over 1% a year within 20 years. Asia is no exception; for instance, Japan will suffer a 25% decline over the next decade in the number of workers under 30. All this means declining production. So how will the bills be paid? One way is to raise taxes on the declining number of workers. Another option would be simply to cut benefits. The third option implies borrowing. As aging nations try to avoid hard choices, they are apt to pick the easy way -- building up increasing mountains of debt. Not a very happy picture any way you look at it. And no easy answer.

* *

Slowly, it's coming out in the open. There's no budget surplus. The so-called surplus is what the government is stealing from what should be going into the Social Security Trust Fund. Now a few Republicans are demanding that the SS money should be taken off budget. If that were done, it would show that the national budget is still at a deficit. Want proof of what's happening? The latest figure on the national debt is $5.649 billion. One year ago the figure was $5.528 billion. Thus, the national debt has increased by $121 billion over the last year. That's the real increase in the US national debt and no, that's not a plus, that's a **deficit.**

* *

With all the talk about a Clinton legacy, there's not going to be a legacy unless it's a legacy of disgracing the White House and the office of the presidency. Count on it, the new presidential candidates will talk about decency, honesty and a respect for the office. In the final two years of his office Clinton's real intent will be to lay the groundwork for recapturing control of Congress and to pave the way for Al Gore's presidential run. If Clinton can pull those two off, he can boast that at least he was a winner for his party. The fact is that there's little love for Clinton among the leaders of the Democratic party, particularly Democrats in the Senate (who held their noses while they voted to keep him in office).

* *

The huge 70-foot Marlboro Man sign on Sunset Strip in Hollywood is finally being dismantled. The M-Man was there for 17 years, Stetson hat at a jaunty angle, cowboy duds on, urging us all to smoke. Do you wonder what happened to the actual model for the Marlboro Man? The poor devil died of lung cancer, probably cursing cigarettes as he coughed his last. I smoked from the age of 18 to the age of 40. In the Army, everybody smoked (what the hell, we weren't sure we were going to get out alive anyway). But that vicious and fantastically addictive habit stayed with me for years, and after repeated (and I mean repeated) attempts to kick the habit, I finally did it. Four days after I quit I had a heart attack. My good doctor told me, "You should have quit four years ago instead of four days ago." I quit in 1970, and I haven't been near a cigarette since. Incredibly, better than 25% of American adults still smoke and teenage smoking is actually increasing. I maintain that with the current decisive evidence, people who still smoke are simply in denial (the unwritten words are "the other guy will get cancer, I'm immune." Yeah, right. Which brings to mind the old joke line that runs, "Hey, anyone can quit smoking, but it takes a real man to face cancer."

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A lot of subscribers have asked me for sites that I like on the net, or at least helpful financial sites. Here are a few that I do like: www.bloomberg.com, www.cme.com, www.smartmoney.com, www.decisionpoint.com, www.msn.com, www.stockmaster.com, www.yahoofinance.com, www.heraldtribune.com, www.dljdirect.com.

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Here's a question I get every month or so. "Russell, when you go to that great analyst's desk in the sky, do you have anyone who can take over Dow Theory Letters?" The bad news is that no, I don't. The good news is that I expect to write until I'm 97 and then I'm going to think seriously about retiring.

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Steve Forbes has thrown in his hat again -- he's the brains of the presidential field and he's intent on jettisoning the IRS and instituting a 17% flat tax. Why Americans don't see that as a great idea is beyond me, but the whole country seems mindlessly happy to pay complicated high taxes. Forbes' other problem is that he doesn't think he can be the GOP candidate unless he can somehow satisfy the religious right on abortion. But US women can now swing the vote, and they don't want the government dictating abortion terms. It's a tough one, so the GOP would probably rather stick with junior Bush who stands for -- mmm, what the hell does he stand for? Well, he is good looking.

* *

The Internet stocks are issuing convertible bonds, so far about $2.63 billion worth of them. Since most of the net stocks are earning zip, what will they pay the bond interest with? They'll pay with the money they receive for the bonds. Most of the net stocks have given buyers only a small percentage of their capitalizations, but when the bonds start to convert, there'll be a

lot more stock on the market. Ah well, it's hardly a game of values or income any more, so who cares?

* *

Speaking of craziness, did you see the article on the op-ed page of the March 17 *WSJ*? The piece put forth the argument that "stock prices are still far too low . . . Our calculations show that a perfectly reasonable level for the Dow would be 36,000 -- tomorrow, not 10 or 20 years from now." My first reaction was that this article was a satire or a comedy piece. But no, these two authors are serious. Next I looked to see whether these were market men or academicians. Sure enough, one is a fellow and the other is a resident scholar at the American Enterprise Institute. Just proves that academicians will do anything for publicity -- er wait, did the *Journal* include this piece as an ominous example of why "market madness" reigns?

* *

The top movie stars make millions but the movie companies have to sweat out each movie. In sports a lot of the teams don't produce much in profits, but the value of each team continues to rise (to make money you sell your team to another buyer at a higher price). But like the Hollywood stars, the top players do well. Tony Boselli (Jacksonville Jaguars) just got the fattest football linemen's contract in history -- $26 million for four years. *Forbes* just published a major article which suggests that the "stars" in the various industries have now become sort of individual profit centers. I wonder -- is it only a matter of time before I'll be able to invest in say a Bruce Willis or a Sharon Stone? How about some stock in Harrison Ford?

* *

■Shrinking profits caused manufacturers to lay off the most workers in a decade.

By James L. Tyson
Staff writer of The Christian Science Monitor

WARSAW, VA. - Despite one of the most spectacular booms in US history, industry is pointing workers out the factory gate in droves.

You may not know it, but lay-offs and pink slips are coming out faster this year than they were in record 1998. And 1998 was the biggest downsizing year of the decade. You know the old saw -- what's the difference between a recession and a depression? Answer: If your neighbor is fired, it's a recession; if you're fired, it's a depression.

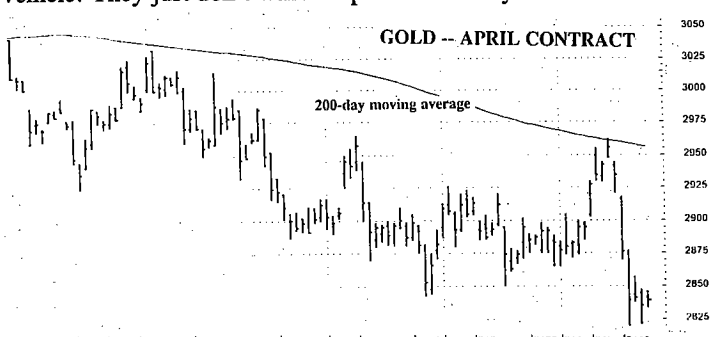
GOLD: President Chirac of France wants the IMF to sell some gold. President Clinton wants the IMF to sell some gold. Treasury Secretary Rubin wants the IMF to sell gold. Why won't these guys leave gold alone? Easy, because gold represents a chunk of money, and these guys want to spend that money. Will the IMF oblige? Maybe, but it will take time.

Clinton urges IMF to sell gold

By Gillian O'Connor
Mining Correspondent

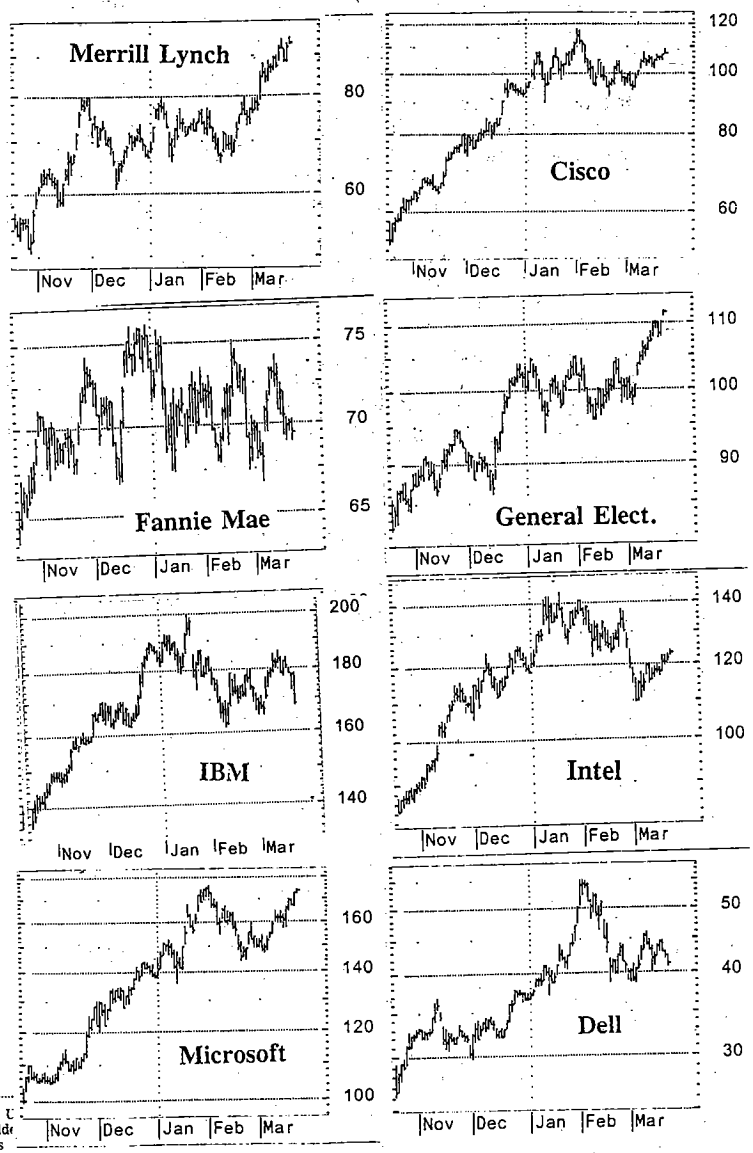
Bill Clinton, the U president, yesterday add his voice to the chorus western politicians suggesting the International Monetary Fund should sell som of its gold to help count

In the mean time, we know that the Fed and almost every central bank is attempting to expand their respective money supplies. The big question is -- can they do it? For instance, in Japan the government has made the money available but the Japanese population has been so traumatized that they won't spend the money. As money becomes available, the Japanese stuff it under their futons or put it in the bank or buy US Treasury bonds or some other saving vehicle. They just don't want to spend the money.



So gold just fiddles around its lows, and misty-eyed old timers fondly remember the 1970s' favorite slogan, "There's no fever like gold fever." Well, there's no fever yet. No, the fever subsided 19 years ago. Darn.

The chart tells the story. The upside resistance for the April contract comes in at 296. Above 296 and gold will start to look interesting. Until then -- it's waiting time.



STOCKS: Let's run through a group of key stocks: **Merrill Lynch,** a bellwether, is looking OK, but it is still below its high of 99 hit in July -- support is at 88. . . . **Cisco** is the blue-chip of the whole net group. CSCO looks "iffy" but support at 104 . . . Federal National Mortgage Assoc. or **Fannie Mae,** is a key financial stock and a monster issuer of mortgages. The stock is beginning to look toppy with support at 65 . . . **GE** is a huge-cap stock and today it's really a finance company. It's at the high and it's one of the power stocks of the Dow. Support at 94 . . . **IBM** is another mainstay of the Dow -- its trend is questionable but important support is at 161 . . . **Intel** is a key stock in the whole tech-net syndrome. Stock is not doing that well -- important key support is at 110 . . . **Microsoft** a super-key stock is the biggest-cap stock in the US. Stock has been doing extremely well with near-term support at 143. Below 143 -- watch out . . . **Dell** has been a market darling for many, many months but is suspect now -- below 38, I'd say it has topped out. **Conclusion:** Plenty of cross-currents here, and watch those support levels. These are all **KEY** stocks.

NEXT MAILING: Apr. 7, 1999